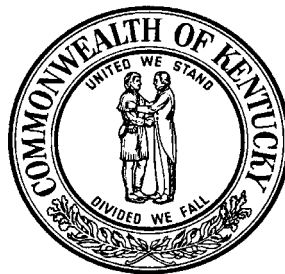


**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS
DEPARTMENT OF FISH AND WILDLIFE RESOURCES**

**In Reference to the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 2004



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

TABLE OF CONTENTS

MANAGEMENT LETTER.....	1
LIST OF ABBREVIATIONS/ACRONYMS.....	3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	4
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	5
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	8
<i>Reportable Conditions Relating to Internal Controls and/or</i> <i>Reportable Instances of Noncompliance</i>	8
FINDING 04-FW-1: The Department Of Fish and Wildlife Should Ensure That All Timesheets Are Signed By The Employee And The Supervisor	8
FINDING 04-FW-2: The Department Of Fish And Wildlife Should Consider Requesting The General Assembly To Adopt 50 CFR 80.3-80.4 Into State Law.....	10
FINDING 04-FW-3: The Department Of Fish And Wildlife Should Implement Procedures To Ensure Program Income Is Properly Accounted For And Recorded In The System.....	12



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

W. James Host, Secretary
Commerce Cabinet
Department of Fish and Wildlife Resources

MANAGEMENT LETTER

Pursuant to KRS 43.090 (1), which states, "[i]mmediately upon completion of each audit and investigation, except those provided for in KRS 43.070, the Auditor shall prepare a report of his findings and recommendations," we are providing this letter to the Department of Fish and Wildlife Resources to comply with KRS 43.090.

This letter presents the results of the work performed at the Department of Fish and Wildlife Resources, as part of our annual Statewide Single Audit of the Commonwealth of Kentucky.

In planning and performing our audit over compliance with requirements applicable to major federal programs, for the year ended June 30, 2004, we considered the Department of Fish and Wildlife Resources' internal control in order to determine our auditing procedures for the purpose of expressing an opinion on compliance with requirements applicable to each major federal program and to report on internal control over compliance in accordance with Office of Management and Budget (OMB) Circular A-133 and on the Schedule of Expenditure of Federal Awards (SEFA).

We noted two instances of noncompliance with requirements applicable to major federal programs we considered to be reportable under standards established by OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the Department of Fish and Wildlife Resources ability to administer a major federal program in accordance with the applicable requirements of OMB Circular A-133.

In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.



W. James Host, Secretary
Commerce Cabinet
Department of Fish and Wildlife Resources
(Continued)

As part of our audit of the Commonwealth's basic financial statements, we also performed tests of the Department of Fish and Wildlife Resources compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of those tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Schedule of Expenditures of Federal Awards
- ◆ Notes to the Schedule of Expenditures of Federal Awards
- ◆ Findings and Recommendations
- ◆ Federal Noncompliance and Reportable Conditions

We have issued our Statewide Single Audit of the Commonwealth of Kentucky that contains the Department of Fish and Wildlife Resources' findings, as well as those of other agencies of the Commonwealth. This report can be viewed on our website at www.auditor.ky.gov.

This letter is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

February 28, 2005

LIST OF ABBREVIATIONS/ACRONYMS

CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CR	Cash Receipt Document
FY	Fiscal Year
FYE	Fiscal Year End
F&W	Fish and Wildlife
FYE	Fiscal Year End
KRS	Kentucky Revised Statutes
OMB	Office of Management and Budget
R&D	Research and Development
SEFA	Schedule of Expenditures of Federal Awards
U.S.	United States

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<u>U.S. Department of Agriculture</u>				
Direct Programs:				
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 52,731	\$	\$
10.028	Wildlife Services (Note 4)	40,649		
10.069	Conservation Reserve Program (Note 5)	-		
10.902	Soil and Water Conservation	134,527		
10.914	Wildlife Habitat Incentive Program (Note 3)		5,250	
<u>U.S. Department of Defense</u>				
NA	Monitoring of Wildlife	10,765		
<u>U.S. Department of the Interior</u>				
Direct Programs:				
15.605	Sport Fish Restoration (Note 4)	4,074,800		
15.611	Wildlife Restoration (Note 6)	3,881,466		
15.615	Cooperative Endangered Species Conservation Fund (Note 4)	183,076		
15.616	Clean Vessel Act	34,164		
15.618	Fish America Foundation - Cedar Creek (Note 5)	-		
15.622	Sportfishing and Boating Safety Act	98,950		
15.625	Wildlife Conservation Restoration Program (Note 4)	50,299		
15.632	Conservation Grants Private Stewardship for Imperiled Species	26,029		
15.633	Landowner Incentive	531,860		489,076
15.634	State Wildlife Grants (Note 4)	440,486		
15.808	U.S. Geological Survey - Research and Data Collection	19,718		
NA	National Fish and Wildlife Foundation - Restoration of Elk Habitat in Kentucky	6,046		
NA	Federal Junior Duck Stamp Conservation and Design Program	2,155		
<u>U.S. Environmental Protection Agency</u>				
Direct Programs:				
66.461	Wetland Program Grants	79,692		
<u>U.S. Department of Homeland Security</u>				
Direct Program:				
97.012	Boating Safety Financial Assistance	660,142		
Total Department of Fish and Wildlife		\$10,327,555	\$ 5,250	\$ 489,076

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Basis of Presentation - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity for the Department of Fish and Wildlife Resources, except those programs administered by state universities, and is presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. The Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the basic financial statements.

KRS 45.229 provides that the Finance and Administration Cabinet may, “for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Noncash assistance programs where applicable, are not reported in the basic financial statements of the Commonwealth for FY 04. The noncash expenditures presented on this schedule represent the noncash assistance expended by the Department of Fish and Wildlife Resources using the method or basis or valuation described in Note 3.

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

- (a) Federal moneys may be received by a state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

State agencies that pass federal funds to state universities report those amounts as expenditures.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-Agency Activity

(b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as an expenditure by the purchasing agency only.

Note 2 - Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$20 million for FY 04. The Department of Fish and Wildlife Resources had no cash programs that met the Type A program definition for FY 04.

Note 3 - Noncash Expenditure Programs

The Department of Fish and Wildlife Resource's noncash program description of the method/basis of valuation follow.

CFDA #	Program Title	Amount	Method/Basis of Valuation
10.914	Wildlife Habitat Incentive Program	\$5,250	25% of agreement total (\$21,000).

Note 4 - Research and Development Expenditures

OMB Circular A-133 Section 105 states, "Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-federal entity."

The expenditures presented in the SEFA include R&D expenditures. The R&D portion of the expenditures for each program follows.

CFDA #	Program Title	Expenditures
10.028	Wildlife Services	\$ 40,649
15.605	Sport Fish Restoration	1,339,845
15.615	Cooperative Endangered Species Conservation Fund	82,807
15.625	Wildlife Conservation Restoration Program	11,666
15.634	State Wildlife Grants	35,354

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Note 5 - Zero Expenditure Programs

These programs had no expenditures related to the Department of Fish and Wildlife Resources during FY 04. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

Note 6 - Wildlife Restoration (CFDA #15.611)

The Department of Fish and Wildlife Resources leases properties from the U.S. Army Corp of Engineers for Condition Three and Condition Five Projects. These projects stipulate that the properties leased be managed for wildlife purposes and may produce income. The leases for wildlife management rights on these properties are non-monetary. The Department of Fish and Wildlife Resources currently leases the following properties:

- Barren River
- Green River
- Dewey Lake
- Fishtrap Lake

Any expenditure in excess of revenue from each property listed above will be eligible for reimbursement under the Wildlife Restoration grant (CFDA #15.611) from the U.S. Department of the Interior. The properties listed above are not reimbursed with federal funds, if the grant has already been expended to manage other wildlife properties.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance***

State Agency: Commerce Cabinet - Department of Fish & Wildlife Resources

Federal Program: CFDA 15.605 - Sport Fish Restoration

CFDA 15.611 - Wildlife Restoration

Federal Agency: U.S. Department of the Interior

Pass-Through Agency: Not Applicable

Compliance: Activities Allowed and Allowable Costs

Amounts of Questioned Costs: \$0

FINDING 04-FW-1: The Department Of Fish and Wildlife Should Ensure That All Timesheets Are Signed By The Employee And The Supervisor

During testing of payroll for activities allowed there were three instances where supervisors' timesheets were not signed by the next line supervisor or director.

Timesheets not signed by the next line supervisor or director may be incorrectly coded to the wrong grant, program budget unit, fund, and project. Failure to have timesheets approved at all levels may lead to employees miscoding time.

Payroll Manual: Chapter 5 – Reporting Time and Attendance of Employees states:

Keeping records of time and attendance for each employee is required both to satisfy good auditing controls and to comply with requirements of the Federal Government under the provisions of the Fair Labor Standards Acts. A part of these requirements dictate that time records are kept on a daily basis. In addition, the time records must have both the employee's and the employee's supervisor's original signatures certifying to the accuracy of the time reported.

No state agency is required to use the statewide time and attendance form. A substitute developed by the agency must be used. However, any substitution must provide for daily reporting, employee signature and supervisor signature.

Recommendation

We recommend that all timesheets be signed by both the employee and supervisor to ensure that time is being coded to the correct grant, program budget unit, fund, and project.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

*Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*

FINDING 04-FW-1: The Department Of Fish and Wildlife Should Ensure That All Timesheets Are Signed By The Employee And The Supervisor (Continued)

Management Response and Corrective Action Plan

We agree that both the employee and the direct supervisor must sign the timesheet. We are conducting training sessions on timesheet procedures. The focus of the training sessions is to ensure that each employee is aware that he/she is responsible for reporting accurately and on time his/her hours worked, the cost centers and grants or projects to which the hours should be charged, and any authorized absences. We are stressing that both the employee and supervisor must sign the timesheet, and that their signatures indicate the information contained on the timesheet is correct, and the timesheet has been accurately and thoroughly completed.

We will review timesheets for accuracy and compliance on a scheduled basis once we have hired the Graduate Accountant Manager and Internal Policy Analyst (Grant Accountant).

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

State Agency: Commerce Cabinet - Department of Fish & Wildlife Resources

Federal Program: CFDA 15.605 - Sport Fish Restoration

CFDA 15.611 - Wildlife Restoration

Federal Agency: U.S. Department of the Interior

Pass-Through Agency: Not Applicable

Compliance: Special Tests and Provisions

Amounts of Questioned Costs: \$0

FINDING 04-FW-2: The Department Of Fish And Wildlife Should Consider Requesting The General Assembly To Adopt 50 CFR 80.3-80.4 Into State Law

As required by Code of Federal Regulations, 50 CFR 80 Section 3 and 4, there is a statutory prohibition to prevent diversion of license revenue. However, during review of the internal control questionnaire, section N "Special Tests and Provisions," we became aware that the General Assembly can transfer funds from the Game and Fish Fund to the general fund as needed. This may be prohibited by federal regulations. For FYE June 30, 2004, Fish and Wildlife generated \$21,062,348 in license revenue.

The General Assembly has the authority, in appropriating funds, to transfer funding by notwithstanding certain statutes. In the case of the Department of Fish and Wildlife Resources, federal funds could be jeopardized by such action.

KRS 150.150 Game and Fish fund states:

- (1) Except as provided in this chapter, all moneys derived from the sale of licenses or from any other source connected with the administration of this chapter shall be promptly paid over to the State Treasurer, who shall deposit such moneys in a special fund, known as the game and fish fund. The game and fish fund shall be used to carry out the purposes of this chapter and any law or regulation for the protection of wildlife and for no other purpose.

KRS 48.315 Transfer of agency, special, and other funds to general fund in budget bill states,

- (1) The General Assembly may provide in a budget bill for the transfer to the general fund all or part of the agency funds, special funds, or other funds established under the provisions of . . . KRS 150.150 . . .

Recommendation

The Department of Fish and Wildlife Resources should consider requesting the General Assembly to adopt the provisions of 50 CFR 80.3-80.4 into state law to further assure no loss of federal funds due to the transfer from a restricted agency account.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

*Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*

**FINDING 04-FW-2: The Department Of Fish And Wildlife Should Consider
Requesting The General Assembly To Adopt 50 CFR 80.3-80.4 Into State Law
(Continued)**

Management Response and Corrective Action Plan

We agree with your recommendation. Fish and Wildlife Resources is aware that the Federal Regulations 50 CFR 80.3-80.4 states that the Commonwealth should enact a state law to assure that funds from license revenue are not transferred from the agency into the general fund or else where. House Bill 457 included the Assent language as required by the Federal Regulations. However, both houses of the General Assembly did not pass the bill. As a result, we continue to be in non-compliance with CFR 80.3-80.4.

We will try again during the next session.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

State Agency: Commerce Cabinet – Department of Fish & Wildlife Resources

Federal Program: CFDA 15.605—Sport Fish Restoration

CFDA 15.611—Wildlife Restoration

Federal Agency: U.S. Department of the Interior

Pass-Through Agency: Not Applicable

Compliance: Program Income

Amounts of Questioned Costs: \$0

FINDING 04-FW-3: The Department Of Fish And Wildlife Should Implement Procedures To Ensure Program Income Is Properly Accounted For And Recorded In The System

The Department of Fish and Wildlife Resources receives program income from land purchased, improved, or maintained with federal funds. In FY 04 the Department of Fish and Wildlife received \$677,830 in program income. During our test of program income there was one out of ten instances where the amount per the cash receipt (CR) document did not agree to the supporting documentation.

Due to staff shortages, the same person receives the income, deposits the money with Treasury and then performs the reconciliations. There is no final review to ensure all income received is deposited. Without proper internal controls the risk increases for unrecorded or miscoded program income.

Internal control over the handling of cash and checks is one of the most critical areas in the receipt process. Proper segregation of duties relating to cash demands that close consideration be given to these various activities. Separation of cash handling and record keeping should exist.

Recommendation

We recommend that procedures be implemented to ensure that program income is properly accounted for and recorded in the system. There should be a separate person in charge of depositing the funds and performing the reconciliation. Supervisory review is necessary as well.

Management Response and Corrective Action Plan

We agree with your recommendation. Fish and Wildlife Resources is aware that Administrative Services has internal control weaknesses. We are cognizant that there should be proper segregation of duties. Also, we recognize that the handling of cash and checks is one of the most critical areas in the receipt process. However, we have been forced to direct employees to perform duties that should be separated in order to get the job done. This action was taken because we are under staffed.

We will implement your recommendation as soon as we fill our current vacancies.

